

NATIONAL CREDIT UNION ADMINISTRATION

OFFICE OF THE INSPECTOR GENERAL

REPORT TO CONGRESS

April 1, 1998 - September 30, 1998

THE NCUA MISSION

**TO ENSURE THE SAFETY AND SOUNDNESS OF CREDIT UNIONS
BY PROVIDING APPROPRIATE REGULATION AND SUPERVISION,
WHILE EFFECTIVELY MANAGING THE AGENCY'S RESOURCES
AND THE SHARE INSURANCE FUND**

=====

THE OFFICE OF INSPECTOR GENERAL MISSION

**TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS
IN NCUA PROGRAMS AND OPERATIONS,
AS WELL AS PREVENT AND DETECT FRAUD, WASTE, AND ABUSE**

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OFFICE OF INSPECTOR GENERAL NATIONAL CREDIT UNION ADMINISTRATION

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INSPECTOR GENERAL'S MESSAGE TO THE CONGRESS

Along with NCUA and the entire credit union community, we were gratified when Congress passed, and the President signed into law, the Credit Union Membership Access Act of 1998. This new legislation generally overturned the Supreme Court's ruling of February 1998, prohibiting credit unions from adding multiple groups to their fields of membership (FOM). The new law goes beyond a return to *status quo ante* and adds several other provisions modifying the way credit unions do business. Over the next several years we will be monitoring the agency's handling of regulatory changes required by the Act.

We continue to work on matters related to the Office of Personnel Management's (OPM) critical September 1997, audit report. OPM has returned hiring authority to the agency, which was removed when the audit report was issued. However, the Office of Special Counsel (OSC) has not yet communicated its findings on OPM-referred allegations that some NCUA managers used false duty locations to hire new examiners. Our office has issued several investigative reports to the Board on OPM related issues, and we have completed almost all of our investigative work in this area. These reports focus on prohibited personnel practices. We are also currently drafting our audit of affirmative action and merit promotion actions and expect to issue it before the end of the year.

In October 1998, the OIG will draft its own Strategic Plan, which will update our current Strategic and Five Year plan (1995-1999) following Results Act guidelines. We will completely revise our plan and also complement the agency's efforts under the Results Act. Over the next two years, our audit work will concentrate on the agency's handling of the Year 2000 (Y2K) preparation in the credit union community as well as within the agency. We anticipate that a new OIG position for an Electronic Data Processing auditor will enhance these efforts as well as other technological audit and investigative work to come. We will also monitor the agency's ongoing construction of its strategic and performance plans.

AUDIT HIGHLIGHTS

The Year 2000 computing crisis has received a great deal of attention throughout the government, and is of particular interest to the financial services regulators. During this reporting period, the House Banking and Financial Services Committee held hearings on meeting the Y2K challenge. At the request of the Committee Chairman, I provided written testimony on NCUA's progress. The OIG is continuing to monitor the Y2K issue and plans to devote the majority of its audit resources to this issue over the next two reporting periods.

Another major audit effort during this period was our review of merit promotions within NCUA. We are in the process of reviewing the draft report on this subject. This report will address how NCUA merit promotions have complied with merit system principles for grades CU-13 and above, during calendar years 1995-1997. To assist the OIG staff with this review, we contracted with the National Academy of Public Administration, and also enlisted the services of a subject matter expert from the Office of Personnel Management.

The OIG participated in the Summer Hire Program and benefited from the services of a Morgan State University Finance Major. Under OIG supervision, the Summer Intern participated in a joint audit of the Federal Financial Institution Examination Council's examiner education function. This was a joint effort in conjunction with Inspector General staff of the Board of Governors of the Federal Reserve System, the Department of the Treasury, the Federal Deposit Insurance Corporation, and NCUA.

Significant progress was made this period to increase the capabilities of the OIG staff. We advertised a vacancy a part-time auditor/investigator, and we are in the process of preparing an announcement for an Electronic Data Processing (EDP) auditor. Both positions should be filled by the end of the calendar year.

INVESTIGATIVE HIGHLIGHTS

As noted above, our investigative work concentrated on allegations related to the OPM audit report of September 1997. We issued seven investigative reports to the Board, four of which relate to merit promotion issues. Three of the four are open pending final Board action. We investigated an allegation of retaliation against a credit union and found it to be unsubstantiated. By the end of the next reporting period we anticipate final agency action on all outstanding OPM-related reports and the results of the completed OSC report.

FUTURE PLANS

The major projects for the next reporting period will be: 1) monitoring the agency's progress in ensuring that credit unions and the agency itself are Y2K compliant and; 2) overseeing the preparation of the agency strategic plan and performance measures under the Results Act. We will also publish the OIG strategic plan and report on its features in the next report.

Frank Thomas
Inspector General

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NATIONAL CREDIT UNION ADMINISTRATION

The National Credit Union Administration (NCUA) was established as an independent, federal regulatory agency on March 10, 1970. The agency is responsible for chartering, examining, supervising, and insuring federal credit unions. It also insures state-chartered credit unions that have applied for insurance and have met National Credit Union Share Insurance requirements. NCUA is funded entirely by credit unions; it does not receive any tax dollars. As of August 1998, the NCUA was supervising and insuring 6,886 Federal credit unions and insuring 4,231 state-chartered credit unions, a total of 11,117 institutions. This represents a loss of 95 Federal and a gain of 26 State chartered institutions since end of the year 1997, for a total loss of 121 credit unions nation-wide year to date.

NCUA operates under the direction of a Board composed of three members. Board members are appointed by the President and confirmed by the Senate. They serve six-year terms. Terms are staggered, so that one term expires every two years. The Board is responsible for the management of the National Credit Union Administration, the NCUA Share Insurance Fund, the Central Liquidity Facility, and the Community Development Revolving Loan Program.

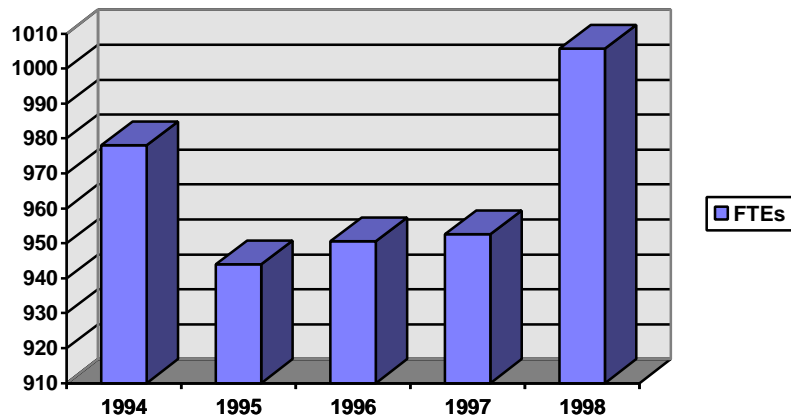
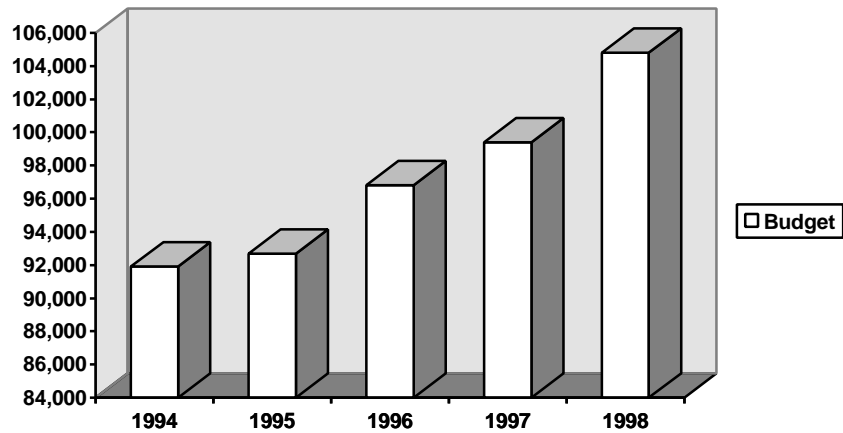
The National Credit Union Administration executes its program through its central office in Alexandria, Virginia and regional offices in Albany, New York; Alexandria, Virginia; Atlanta, Georgia; Lisle, Illinois; Austin, Texas; and Concord, California. NCUA also operates the Asset Management and Assistance Center (AMAC) in Austin, Texas. Please refer to the NCUA organizational chart on page 3.

The NCUA Board adopted its 1998 budget on November 27, 1997. The final revised 1998 budget of \$104,795,197 represents an increase of \$5.4 million over the 1997 budget. The Full Time Equivalent (FTE) staffing authorization requested for 1998 is 1005.75, an increase of 51.25 positions over the 1997 total of 954.50.

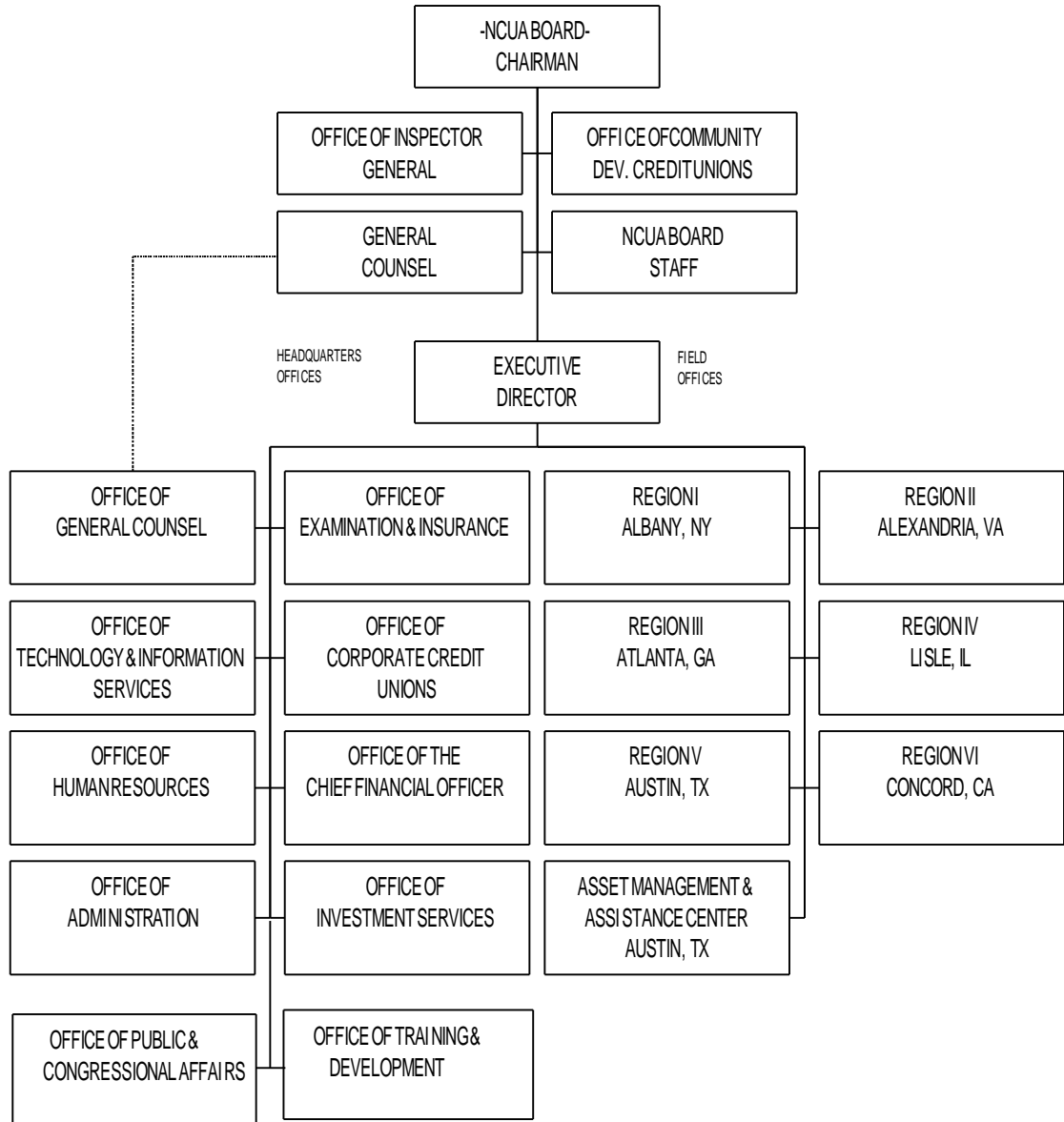
The significant increase in the 1998 budget is necessary to provide for expanded program goals and objectives for 1998, including employee merit increases, the Year 2000 (Y2K) compliance issues, and an expanded corporate credit union program. The largest part of the increase is for Y2K compliance, to ensure the integrity of credit union information systems.

	1998	1997	Difference
LOCATION	FTE	FTE	FTE
Headquarters	214	201	13
Regional Offices	155.75	153	2.75
Field Examiners	636	600.5	35.5
Total Positions Authorized	1005.75	954.5	51.25

Year	Budget	FTE
1994	\$91,900,000	978
1995	\$92,700,000	944
1996	\$96,800,000	950.5
1997	\$99,400,000	954.5
1998	\$104,800,000	1005.75



NCUA ORGANIZATION CHART



NCUA HIGHLIGHTS

Follow-up on last Semiannual's Highlights

CONGRESS OVERTURNS SUPREME COURT RULING ON COMMON BOND

Congress effectively overturned the Supreme Court's decision of last term that ruled against NCUA's interpretation of the Federal Credit Union Act's common bond provision. The Credit Union Membership Access Act, P.L. 105-21, passed by both houses of Congress this past summer, was signed into law by President Clinton on August 7, 1998.

The new law sanctioned credit unions' expansion into multiple fields of membership if each group included fewer than 3,000 members; codified "once a member, always a member," and made immediate family members eligible for credit union membership. The law also placed new restrictions on member business lending, mandated three more Treasury studies, required annual GAAP audits, restricted conversions to mutual savings banks, codified capital requirements, and required prompt corrective action and annual certified statements.

We will be overseeing the agency's execution of the law's requirements through its regulations, chartering manual, and other procedures.

OPM RESTORES NCUA APPOINTING AUTHORITY

Effective August 1, 1998, almost a year after it removed it, the Office of Personnel Management (OPM) restored NCUA's appointing authority, except for the delegated examining authority for new Federal applicants. The restoration was due in large part to the work of the agency's OPM Task Force and its Chairman, J. Leonard Skiles, AMAC President, who worked with the agency's Office of Human Resources (OHR) to regularize the improper hiring procedures criticized by OPM in its 1997 audit.

Credit should also be given to the agency's new OHR Director, Sherry Turpenoff, who was hired on May 4, 1998. Ms. Turpenoff is an expert in human resource management and development, who most recently worked for OPM as Director of the Nationwide Examining Policy and Office of Administrative Law Judges. The agency is awaiting final word from the Office of Special Counsel (OSC), on the results of the allegations referred to it by OPM in its 1997 audit report concerning false duty locations.

We understand that the OSC is continuing to investigate, and may report its findings and recommendations to the agency before the end of the year. We are continuing related audit and investigative work on merit promotion issues.

New Highlights

BOARD NAMES NEW EXECUTIVES

In addition to OHR Director *Sherry Turpenoff*, the Board has made several other executive appointments during the past six months. Effective August 3, 1998, the Board approved *Carolyn D. Jordan* as the agency's first permanent Executive Director since Karl Hoyle was terminated in September 1997, as a result of the OPM audit. Ms. Jordan is an attorney with over 25 years' experience, including 18 years as Counsel to the Senate Banking, Housing and Urban Affairs Committee.

The Board named former Region II Regional Director (RD) *Jane Walters* to head NCUA's Region VI, headquartered in Concord, CA. Walters became NCUA's first woman RD in July 1995. The Board selected former Deputy Executive Director *Tawana Y. James* as RD for Region II, headquartered in Alexandria, VA.

NCUA PROGRESSES WITH Y2K PROGRAM

In January 1998, the NCUA Board adopted a Y2K Contingency Plan for credit unions. The Plan defines each phase of the Y2K conversion and sets milestones for compliance. The agency obtained Congressional assistance in February, when Congress passed HR 3116, the Examination Parity and Year 2000 Readiness for Financial Institutions Act. This law gave NCUA the power to supervise credit union organizations and other service providers of Y2K sensitive services.

As of March 1998, the reports received by NCUA indicate that 2,724, or 25% of credit unions are Y2K compliant. An additional 475 report that they are not affected (they post manually) and 39, all corporates, report being partially compliant, having completed their assessment phase.

The OIG is closely monitoring the agency's progress in Y2K matters.

BOARD ISSUES NEW SUPERVISORY STATEMENT ON MARKET RISK ANALYSIS

In July, 1998, the Board issued IRPS 98-2, the new Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities. This Interpretive Ruling and Policy Statement (IRPS), effective October 1, 1998, explains that a credit union that has a material position in complex securities, without measuring

risk, engages in an unsafe and unsound practice. The new policy provides that due diligence should increase in proportion to the risk of the potential investment. The IRPS extends pre-acquisition and ongoing analysis to all complex securities, not just CMO's; and permits the purchase of CMO's/REMIC's prohibited under FFIEC's high risk security test. With the IRPS, the agency hopes to encourage credit unions to do their risk homework ahead of the trade, to better identify and manage inherent risks in all complex investment activities.



FEDERALLY INSURED CREDIT UNION HIGHLIGHTS

Credit unions submit semiannual call reports (financial statement data) to NCUA. An NCUA staff assessment of the 1998 mid-year call reports submitted by all federally insured credit unions for the period ending June 30, 1998, found key financial indicators continue to be strong in all areas.

ASSET GROWTH AND CAPITAL ACCUMULATION CONTINUE

Federally insured credit unions continued to increase assets and capital during the first half of 1998. Assets increased by \$20.4 billion, an increase of 5.8%. Total capital increased by \$1.7 billion or 4.3% for the first half of 1998. The capital increase compares to a 5.1% increase for the same period of 1997, and 4.6% for the first half of 1996. Capital increased, however, because the rate of increase is lower than the rate of increase in assets, capital ratios declined. Capital to assets dropped slightly to 11.6% from 11.7% in 1997. The net capital to total assets ratio, which measures capital after estimated losses, also decreased, from 11.1% to 10.9%.

LOAN GROWTH INCREASES AT A SLOWER RATE

Loan growth represented 27% of asset growth. Total loans increased \$5.5 billion or 2.4% during the first half of 1998. The rate of increase for the comparable period in 1997 was 3.9%, while loan growth for the comparable period in 1996 was 4.6%. 1998 will be the sixth consecutive year of loan growth.

Two loan categories accounted for most of the 1998 increase:

- First mortgage real estate loans increased \$5.0 billion (9.7% increase); and
- Used automobile loans increased \$3.1 billion (7.0% increase);

Loan increases were somewhat offset by decreases in new auto loans, credit card loans, and other unsecured loans totaling \$3.3 billion.

LOAN DELINQUENCY DECLINES

Delinquent loan dollars declined during the first half of 1998, causing the delinquency ratio to decline from 1.0% at the end of 1997 to 0.9% as of June 30. This is the lowest level since mid 1996. While delinquency dropped, net charged off loan dollars again increased by 19%. This increase in charge offs explains part of the decline in delinquent loan dollars. Additionally, recoveries on charged off loans increased 8.4% compared to the same period in 1997. However, the increased level of recoveries was not sufficient to match the increase in charged off loan dollars.

Although net charge offs increased, the net charge off ratio remains unchanged because total loans also increased.

Credit unions reported an increase of \$800,000 in loans subject to bankruptcy as of midyear. The amount represents a 1.4% decrease from the amount reported for the first half of 1997. When annualized, however, this amount represents an increase of more than 40% over the total for all of 1997.

INVESTMENT INCREASE TREND

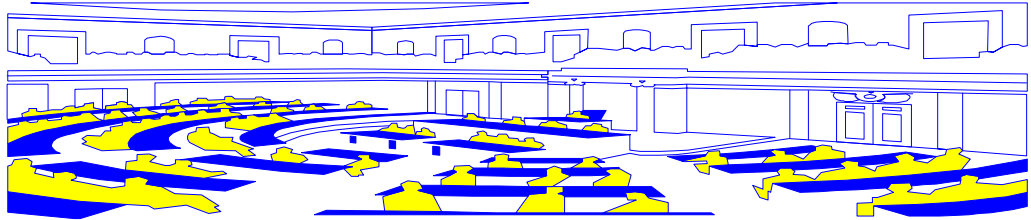
Investments increased \$14.1 billion (13.7%) for the first six months of 1998. The 1998 investment increase compares to an increase of 9.2% for the same period in 1997, and a 6.9% for the first half of 1996. The investment increase is consistent with a low loan growth rate of 2.4% and a higher share growth rate of 5.7%. Investments represent 31.4% of total credit union assets.

The investment portfolio continues to shift from held to maturity and available for sale investments. Sixty five per-cent of the investment growth was placed in investments with less than one year maturity. The investment category with the largest dollar growth in deposits is corporate credit unions, with an increase of \$7.3 billion (28.3%). Significant growth is also noted in federal agency securities (\$3.1 billion and an increase of 7.9%). Another investment with significant increase is deposits in banks (\$2.6 billion an increase of 15.8%). U.S. government obligations was the only investment type that declined (\$1.1 billion or 9.7%).

LIQUIDITY

Because share growth exceeded loan growth in the first half of 1998, credit unions have excess liquidity for investing. The excess liquidity was invested primarily for the short-term, less than one year, in corporate and other liquid investments. This strategy should place credit unions in a good position to fund loan growth historically seen during the last half of the year.

LEGISLATIVE HIGHLIGHTS



PRESIDENT CLINTON SIGNS CREDIT UNION MEMBERSHIP ACCESS ACT (H.R. 1151)

The major legislative event of 1998, was the enactment of the Credit Union Membership Access Act, Public Law 105-21, signed into law on August 7, 1998. Major provisions of the law include:

Fields of Membership The law allows multiple groups of less than 3,000 to be added to credit unions' fields of membership; codifies "once a member, always a member;" and makes the immediate family of a member eligible for credit union membership.

Member Business Loans The law limits business loans to 12.25% of assets (loans below \$50,000 do not count toward the cap). Institutions chartered to make member business loans and low-income credit unions are exempted from the requirement. Congress charged the Department of the Treasury with conducting a study of credit union business lending.

External Credit Union Audits Credit unions with assets of over \$500 million are required to have annual audits prepared in accordance with Generally Accepted Accounting Principles. In instances where Federal credit unions with assets over \$10 million choose to have an independent external audit, the audit must conform with state accountancy laws, including licensing requirements.

Charter Conversions The law permits credit unions to convert to mutual savings banks with majority vote of members voting—after notifying members 90, 60, and 30 days before the conversion election.

Prompt Corrective Action NCUA is required to issue prompt corrective action regulations comparable to bank regulations.

Credit Union Capital The law codifies the definitions for credit union capital.

Treasury Study The Department of the Treasury is to study differences between credit unions and other financial institutions, including regulations and taxation.

Annual Credit Union Statement Credit unions must file annual certified statements with NCUA. If the credit union has assets greater than \$50 million, it must file semi-annual reports.

Share Insurance Premiums The National Credit Union Share Insurance Fund (NCUSIF) cannot assess credit unions for share insurance premiums more than twice a year. NCUA must routinely appraise the liquidity needs of credit unions and make the report available to the Federal Reserve Banks.

PRIVATE MORTGAGE INSURANCE (PL 105-216) SIGNED INTO LAW

Public Law 105-216 was signed into law on July 29, 1998, and will become effective July 29, 1999. The law requires the cancellation of private mortgage insurance (PMI) upon the borrower's request when a borrower has 20 percent equity in the property and a good payment history. Annual mortgage disclosures must include notice to the borrower of the right to request cancellation, and lenders must automatically cancel PMI at the midway point of amortization if payments are current. NCUA is the enforcement authority for credit unions.

HOUSE AND SENATE VOTE ADDITIONAL FUNDING FOR NCUA'S COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

For the first time, both the House and Senate versions of the VA-HUD Appropriations bills for fiscal year 1999 contain funding for NCUA's Community Development Revolving Loan Fund (CDRLF). The Senate version, passed July 17, 1998, would grant \$1 million. The House version, passed July 30, 1998, would grant \$2 million. The final amount would be determined by a conference, but it is extremely likely the CDRLF will receive additional money in fiscal year 1999.

BANKRUPTCY REFORM, H.R.3150/S.1301 ACTED ON BY HOUSE

The House passed the Bankruptcy Reform Act on June 10, 1998. The House and Senate versions are different so a resolution of the differences would be necessary prior to enactment of a reformed bankruptcy law.

Other legislative proposals that may impact credit unions include:

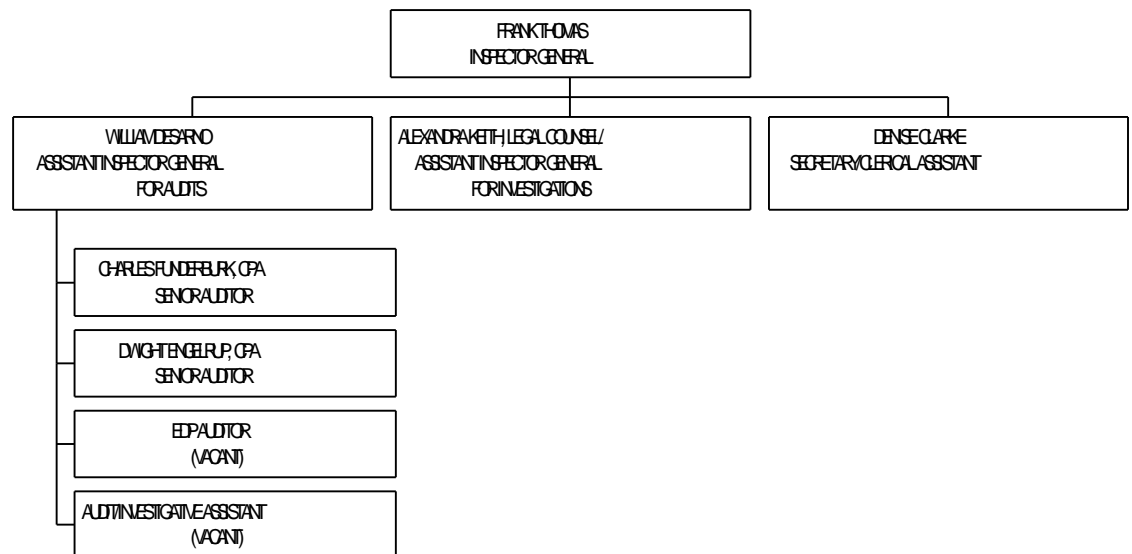
- Financial services industry restructuring;
- Regulatory relief;
- Bank examination report protection;
- Automatic teller machine fees;
- Y2K disclosure; and
- Member business loans

OFFICE OF INSPECTOR GENERAL

The Office of Inspector General was established at the NCUA in 1989 under the authority of the Inspector General Act of 1978, as amended in 1988. The staff consists of the Inspector General, an Assistant Inspector General for Investigations/Counsel, an Assistant Inspector General for Audits, two Senior Auditors, and a Secretary/Clerical Assistant. In addition to these positions, the OIG has announced a vacancy for a part-time Auditor/Investigative Assistant. The OIG also plans to announce a vacancy for an EDP Auditor before the end of the calendar year.

The Inspector General reports to, and is under the general supervision of, the NCUA Board. The Inspector General is responsible for:

1. Conducting, supervising, and coordinating audits and investigations of all NCUA programs and operations;
2. Reviewing policies and procedures to ensure efficient and economic operations as well as preventing and detecting fraud, waste, and abuse;
3. Reviewing existing and proposed legislation and regulations to evaluate their impact on the economic and efficient administration of agency programs; and
4. Keeping the NCUA Board and Congress apprised of significant findings and recommendations.



AUDIT ACTIVITY

AUDIT REPORTS ISSUED AND TESTIMONY PREPARED

Payroll Audit Survey, dated April 20, 1998

Budget appropriation codes are assigned to NCUA organizations to identify and track approved budget costs including payroll expenses. We identified a problem with personnel being charged to the wrong office budget. As a result, we conducted an audit survey to determine how payroll expense allocations are made, and to identify possible causes of payroll misallocations.

The reason employees from one organization showed up on another organization's payroll expense report was because the wrong budget appropriation code (AC) was sometimes charged in recording personnel actions. We identified several causes contributing to this problem: (1) the use of outdated budget appropriation codes when personnel actions were requested on a SF52 - Request for Personnel Action, (2) requesting personnel actions without an accompanying SF52, or the use of retroactive effective dates to record personnel actions, (3) validation reports from GSA's computer payroll system were not compared with information that was input to the personnel system on a consistent basis, and (4) there was no single, consistent source for making changes to budget appropriation codes.

The OIG facilitated a joint meeting of the offices involved and agreements were reached on a course of action to prevent future misallocations.

Congressional Testimony Prepared on Year 2000 Progress

On September 17, 1998, at the request of the Chairman of the House Committee on Banking and Financial Services, the Inspector General provided written testimony on NCUA's Year 2000 progress. The statement addressed NCUA's progress in meeting the Y2K challenge; NCUA's actions to address the U.S. General Accounting Office's (GAO), concerns that credit union systems will be Year 2000 compliant; and OIG plans for initiating evaluations of agency Y2K actions.

Our statement reported that NCUA is making progress in meeting the Y2K challenge. We briefly summarized NCUA actions involving the frequency and thoroughness of Y2K examinations; examiner training and resources; enforcement actions; independent verification of internal NCUA systems; independent verification of credit union systems; reliability of the data the NCUA is reporting to Congress; quality of the agency's contingency planning for liquidity demands, potential institutional failures, or claims to the insurance fund; and NCUA efforts to assist

institutions in verifying the Year 2000 status and readiness of key third parties, such as telecommunications and power companies.

We reported that NCUA has taken actions to address GAO's concerns that credit union systems are Y2K compliant. The GAO testified to the Congress on October 22, 1997, that NCUA recognizes the severity of the problem, has developed a plan, and has initiated action. However, GAO had concerns regarding: (1) agency efforts to determine industry-wide compliance; (2) the lack of a formal, documented contingency plans if credit unions do not become compliant in time or have other problems; (3) credit union auditors thoroughly addressing Y2K issues as part of their work; and (4) NCUA's technical capability to conduct Y2K exams. We reported that NCUA is making adequate progress in addressing each of GAO's concerns.

Our testimony statement also presented OIG's plans for initiating evaluations of agency Y2K actions

AUDITS IN PROCESS

Review of Merit Promotions and Affirmative Actions

We are currently drafting our report on NCUA merit promotions and affirmative actions. The OIG contracted with the National Academy of Public Administration (NAPA) to assist us in reviewing merit promotions for grades CU-15 and above during calendar years 1995-1997. Our review expands upon the NAPA study and includes a review of merit promotions for grades CU-13 through CU-15. The objectives of the review are: to determine if NCUA merit promotions complied with merit system principles; to determine if NCUA had a valid affirmative action plan; and whether the agency's merit promotions were consistent with the plan. The OIG utilized the services of a subject matter expert from the Office of Personnel Management in conducting its fieldwork.

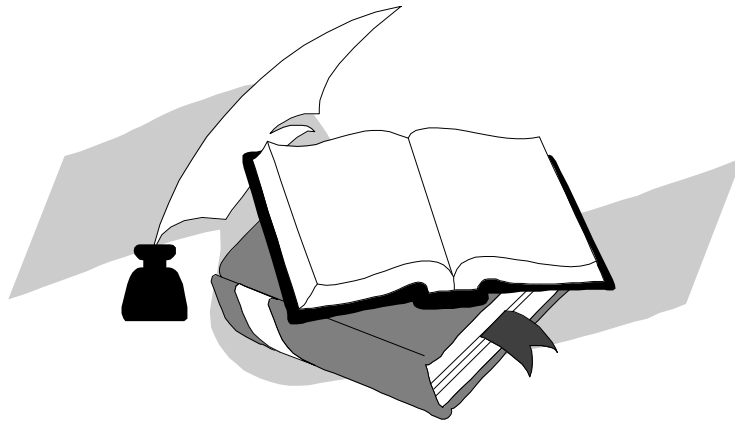
Y2K Monitoring

The OIG is continuing to monitor NCUA's progress in addressing the Y2K computing crisis. Due to limited resources, our work will primarily consist of audit surveys and sample reviews. We plan to communicate the results of our work in management letters rather than audit reports in order to provide timely feedback to management. The OIG is planning evaluations to determine: whether the credit unions rated unsatisfactory (credit unions under administrative actions) and those rated needs improvement (high risk) by NCUA are receiving appropriate and timely follow-up; if NCUA is exercising timely and appropriate follow-up of waiver actions; whether NCUA is exercising appropriate oversight of vendor progress; and

if the independent assessment of mission critical systems confirms NCUA's conclusion that the seven systems are Y2K compliant.

Joint Audit of the FFIEC Examiner Education Function

OIG staff participated in a joint audit of the Federal Financial Institutions Examination Council's (FFIEC) Examiner Education Function. The Inspectors General of the Board of Governors of the Federal Reserve System, Department of the Treasury, National Credit Union Administration, and Federal Deposit Insurance Corporation provided staff to conduct this joint effort. The purpose of the audit was to determine: (1) whether the goals of the FFIEC training program were being met; (2) whether the Examiner Education Task Force is an effective and efficient vehicle for guiding the training program; and (3) whether the current budget process adequately serves the goals and objectives of the FFIEC's training program. The draft audit report is currently being reviewed for issuance to the FFIEC for comment.



INVESTIGATION ACTIVITY

Investigative
initiated as a result
of fraud, waste,

Investigations may
regarding employee

law, and other regulations and statutes pertaining to the activities of NCUA

employees. Investigative findings may lead to criminal prosecution, civil
prosecution, or administrative action.



matters pursued by this office are generally
of allegations, or because of potential findings
abuse, corruption, or mismanagement.

involve possible violations of regulations
responsibilities and conduct, Federal criminal

law, and other regulations and statutes pertaining to the activities of NCUA

The OIG also receives complaints from credit union members that involve NCUA
employee program responsibilities. These complaints are usually examined to
determine whether there is any allegation of NCUA employee misconduct. If not,
the complaint is referred to the appropriate regional office or closed if contact with
the regional office indicates that the complaint has been appropriately handled.

Investigative Contacts

Contacts/inquiries/investigations carried forward from previous reporting period	10
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Contacts initiated during report period	14
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<i>Total contacts during reporting period</i>	24
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Less:

Contacts closed for lack of verifiable evidence or referred to another office	14
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Reports issued and matters closed	3
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<i>Pending contacts</i>	7
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FOUR OPM RELATED REPORTS ISSUED

During this semi-annual reporting period, we issued seven investigative reports to the Board, four of which involved prohibited personnel practices or other illegal practices related to merit promotions. Four cases remain open pending final Board action on OIG recommendations. One closed report contained no recommendations because the personnel involved had left the agency, and there was no possibility for administrative (or criminal) action. One report found the complaints unsubstantiated.

FORMER HIGH LEVEL OFFICIAL FORCED MANAGER TO RETIRE

A former Supervisory Examiner (SE) alleged that he was forced to retire against his will, after a high level official punitively reassigned him to another location and the SE refused to go. The official believed, without justification, that the SE discriminated on the basis of race, because of reports he had received from other employees. The agency opened an EEO investigation that failed to substantiate the allegations of discrimination. Prior to receiving the investigative report, the official reassigned the employee, who was less than one year from retirement, to a distant location. The SE refused to go. The senior official then agreed that the SE could stay at his post if he took a demotion or agreed to retire early. The employee agreed to retire. We found that the senior official's action was a prohibited personnel practice because it violated a regulation directly concerning merit principles, specifically, that "...competitive employment practices be used without discrimination because of race.....and other non-merit grounds;" Management has the right to reassign employees for the efficiency of the service, but not for discriminatory reasons, or for purposes of coercing retirement.

The SE decided to remain in retirement and the senior official left the agency

CREDIT UNION RETALIATION CLAIM UNSUBSTANTIATED

The president of a credit union complained that the NCUA examiner retaliated against the credit union because the president fired a friend of the examiner who was working at the credit union. The president asserted that the examiner and the former employee had a relationship. We found no evidence that the examiner and the employee had any relationship. Further, we found that the examiner did not retaliate against the credit union and none of his actions involving the credit union resulted from retaliatory motives. We issued an investigative report that found the alleged retaliation to be unsubstantiated.

LEGISLATIVE AND REGULATORY REVIEWS

The OIG continues to review proposed legislation and regulations, as well as proposed agency instructions and other policy guidance, in order to make recommendations concerning economy and efficiency in the administration of NCUA programs and operations and the prevention and detection of fraud, waste and abuse.

During the reporting period, the OIG reviewed 18 items, including proposed Results Act amendments, eight regulatory matters, one policy directive, and assorted other documents.

We commented extensively on a proposed agency procurement manual that is expected to include several recommendations made by this office in our Audit of Goods and Services (97-07, July 15, 1997).



OTHER OIG ACTIVITIES

STAFF TRAINING AND DEVELOPMENT

The Inspector General continued to participate in the Financial Institutions Regulatory Committee of the Executive Council on Integrity and Efficiency (ECIE). The Committee provides a forum for Inspectors General of the NCUA, the Federal Reserve, the Department of the Treasury, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Security and Exchange Commission, and the Farm Credit Administration to: discuss matters of mutual interest; coordinate relevant audits, investigations, legislative, and regulatory matters; and seek uniform approaches to handling similar issues. The IG also attended the Association of Government Accountants Annual Professional Development Conference.

The Assistant Inspector General for Investigations (AIGI) attended the Department of Justice's Federal Administrative Process Seminar, and lectured on Legal Considerations in Auditing for Fraud at the Inspector General Audit Training Institute (IGATI). The Assistant Inspector General for Audits (AIGA) participated in a Joint OIG/GAO Audit Coordination Meeting in San Francisco, CA. The AIGA also attended a training course on the Use of Independent Public Accountants for Auditing at the IGATI. The AIGA and Senior Auditor Charles Funderburk studied the Strategic Planning Process at a Central Michigan University seminar held in Washington, DC.

Senior Auditors Charles Funderburk and Dwight Engelrup completed a course on the Fundamentals of Information Systems Auditing at IGATI. Dwight Engelrup also observed the corporate exam process during the examination of Georgia Central Corporate Credit Union.

NCUA STAFF HEARS THE "IG STORY" AT REGIONAL CONFERENCES

This past summer, the AIGI presented "The IG Story," a PowerPoint presentation on the history and functions of IG's, developed by the National Archives OIG, at each of the three regional conferences. AIGA Bill DeSarno at the St. Petersburg Beach, FL conference, Senior Auditor Dwight Engelrup at the Las Vegas, NV meeting, and Senior Auditor Charles Funderburk in Long Beach, CA, also responded to employee questions and spoke privately with regional staff. The presentations were well received by the regional office managers and staffs and allegations were developed from the private consultations.

OIG STAFF PREPARES FOR STRATEGIC PLANNING CONFERENCE

OIG staff attended professional training sessions on OIG strategic planning and performance measures in preparation for the October 1998, OIG Strategic Planning Conference. The AIGA and AIGI also consulted with NCUA Board members, Congressional staff, and other stakeholders to obtain input for the plan, which will complement the agency's own efforts to implement the Results Act. During the two-week conference, the OIG staff will review and revise the existing OIG Strategic and Five Year Plans (1995-1999), which were drafted prior to the Results Act and prior to the heightened Y2K concerns. The OIG will also examine NCUA's recently constructed plans, as well as other Federal OIG models, and develop a new Strategic and Five Year Plan to take the office beyond the new millennium.



TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS				
		Number of Reports	Questioned Costs	Unsup ported Costs
A.	For which no management decision had been made by the start of the reporting period.	0	\$0	\$0
B.	Which were issued during the reporting period.	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which management decision was made during the reporting period.	0	0	0
	(i) dollar value of disallowed costs	0	0	0
	(ii) dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period.	0	0	0
E.	Reports for which no management decision was made within six months of issuance.	0	0	0

Questioned costs are those costs the OIG has questioned because of alleged violations of laws, regulations, contracts, or other agreements; findings which at the time of the audit are not supported by adequate documentation; or the expenditure for the intended purpose is unnecessary or unreasonable.

Unsupported costs (included in "Questioned Costs") are those costs the OIG has questioned because of the lack of adequate documentation at the time of the audit.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE			
		Number of Reports	Dollar Value
A.	For which no management decision had been made by the start of the reporting period.	0	\$0
B.	Which were issued during the reporting period.	0	0
	Subtotals (A + B)	0	0
C.	For which management decision was made during the reporting period.	0	0
	(i) Dollar value of recommendations agreed to by management.	N/A	0
	(ii) Dollar value of recommendations not agreed to by management.	N/A	0
D.	For which no management decision was made by the end of the reporting period.	0	0
E.	For which no management decision was made within six months of issuance.	0	0

Recommendations that "Funds to be Put to Better Use" are those OIG recommendations that funds could be used more efficiently if management took actions to reduce outlays, de-obligate funds from programs/operations, avoid unnecessary expenditures noted in pre-award reviews of contracts, or any other specifically identified savings.

TABLE III

SUMMARY OF OIG ACTIVITY APRIL 1, 1998 THROUGH SEPTEMBER 30, 1998 (THREE PARTS)		
PART I – AUDIT REPORTS AND TESTIMONY ISSUED		
Report Number	Title	Date Issued
Management Ltr	Payroll Expense Allocations	4-20-98
Letter to the Committee	Y2K Testimony Before the U.S. House Banking and Financial Services Committee	9-16-98
PART II – AUDITS IN PROCESS OR PLANNED (as of September 30, 1998)		
	Joint Audit of the Federal Financial Institutions Examination Council’s Training Function	
	Merit Promotion Audit	
	Y2K Monitoring	
PART III – REVIEWS OF STATUTES & REGULATIONS		
Regulations	Title	
12 CFR 701.39	Organization and Operation of Credit Unions; Statutory Liens	
12 CFR 701.20	Organization and Operation of Credit Unions; Surety Bonds	
12 CFR 701.14	Change in official or senior executive officer in credit unions that are newly chartered or in are in a troubled condition	
12 CFR 701;724	Organization and Operation of Federal Credit Unions; Trustees & Custodians of Pension Plans	
12 CFR 701.14(d)(1)	Property Amendment	
IRPS 83-3	Update Leasing 12 CFR 714	
12 CFR 701.25	Charitable Contributions	
12 CFR 711.6	Management Interlocks	
12 CFR 739	Statutory Liens	

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